Broadening the scope of management accounting

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Broadening the Scope of Management Accounting: From a Micro-Economic to a Broader Business Perspective

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THEMA

1 Introduction

When I surveyed research in the field of management accounting 15 years ago, I had difficulty finding an agreed definition of the subject (see Scapens, 1984). Then, as now, there were various definitions of management accounting. An early definition, which has been frequently used over the years, is that management accounting is:

> the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of the information (American Accounting Association, 1966)[1].

The Chartered Institute of Management Accountants (CIMA) uses a similar, but extended definition (see CIMA, 1996)[2].

Drury, however, uses a more concise definition: 'Management accounting is concerned with the provision of information to people within the organization to help them make better decisions' (1996, p. 4), and proceeds to describe 'the attributes of economic information' (*ibid* – emphasis in original). But, anticipating some of the issues raised in this paper, the recent European edition of Horngren's book points out that 'Management accounting measures and reports financial as well as other types of information that are primarily intended to assist managers in fulfilling the goals of the organisation' (Horngren *et al.*, 1999, p. 5 – emphasis add)[3]. Thus, although there are beginning to be some changes, a common feature of these definitions is the use of economic or financial information for management decision making.

In my survey, I argued that this focus on information for management decision making was grounded in microeconomics (Scapens, 1984; see also Scapens and Arnold, 1986). Much of the material usually found in management accounting textbooks has its origins in research undertaken between the late 1950s and early 1970s, which applied the neo-classical economic theory of the firm to management decision making (for some examples see Scapens 1991). We see this particularly in the concepts of marginal, incremental and opportunity costs, and in the various mathematical decision models in management accounting textbooks.

During the 1980s, especially in the UK, there was a growing awareness of a gap between theory and practice. In particular, the 'conventional wisdom' of management accounting textbooks was not being widely applied in practice. Full costs were preferred to marginal costs, and little practical use was made of sophisticated mathematical decision models. Initially, academics were concerned to change practice, but increasingly there was an emphasis on understanding the nature of management accounting practice. This has led to challenges to the economic basis of management accounting's 'conventional wisdom'. In the past ten to fifteen year there have been various developments in management accounting, both in theory and in practice.

In this paper, I want to broaden the scope of management accounting from a micro-economic

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to a broader business perspective, which I hope will capture these theoretical and practical developments. I did consider using the term 'business administration' to reflect this broader business perspective[4]; in particular, to connect with Professor Bouma's substantial contributions to the subject of bedrijfseconomie in the Netherlands. Bouma in his earlier work was also critical of the micro-economic foundations of management accounting – see (1982) where he favoured concepts drawn from behavioural theories of the firm, especially bounded rationality. But his more recent work is grounded in agency theory and transaction cost economics (see Bouma and Van Helden, 1994). However, bedrijfseconomie and business administration, more generally, have different meanings in different countries and so I decided to avoid the difficulties that using such a term would inevitably create. Here, I simply want to broaden the scope of what I see as the traditional Anglo-Saxon approach to management accounting research, grounded largely in a rather narrow micro-economic perspective, to a much broader approach which locates management accounting within the broad dimensions of the business, and recognises both the economic and other organisational roles of management accounting.

The paper is organised as follows. The next section will describe the traditional view of management accounting practice, and then US and European approaches to management accounting research will be contrasted. I will then outline the conclusions of my recent research into the changing nature of management accounting, and identify some of the features of what could be described as the new or emerging form of management accounting. It might be argued that the distinction I draw between the micro-economic foundations of traditional management accounting, and the broader business perspective of modern management accounting, is essentially a British and North American phenomenon. In other countries, especially in Europe, a broader business perspective has existed for some time. Many of the roles and tasks seen to be within the field of management accounting in Britain and North America are undertaken in such countries by other, non-accounting, members of the business; such as engineers, operations managers and even business economists. Although there is emerging evidence of similar changes taking place in management accounting in other European countries (e.g., compare Scapens *et al.*, 1996 and Granlund and Lukka, 1998), I will leave this question for others, and focus here, primarily on the results of my own research. The paper will finish with a comparison of the economic and business perspectives, and a discussion of the implications for both professional management accountants and for management accounting teachers.

2 Management Accounting Practice

In contrast to the decision making focus of the theory portrayed in management accounting textbooks, the traditional focus of management accounting practice in both Britain and North America has been on management control and accountability, with an emphasis on budgeting, cost control and product costing. This has largely been achieved through systems of responsibility accounting, which divide the business into separate areas of responsibility and monitor their performance. Incentives are often related to the system of responsibility accounting, with individuals given incentives for meeting the budgets or other goals for their area of responsibility. This notion of individual responsibility and the use of incentives are fundamental to the conception of responsibility accounting. It emphasises the role of individual business units, departments, sections, and groups, as well individual personal responsibility and accountability for the activities of the business. For example, at the 'head' of a business unit there will be an individual who is personally responsible for that unit's performance. This individual will then have subordinates who are, as individuals, responsible for the performance of their departments or functions; and so on down the organisational hierarchy. As such this form of responsibility accounting has an individualising effect, with the business divided into separate areas of responsibility, each of which is accountable for its own performance. This is frequently reinforced by the creation of formal (or informal) competition between the different areas – with things like 'league-tables' and performance ladders.

The traditional controllership role involves the accounting function monitoring the performance of these areas of responsibility, and providing financial reports which can be passed up the organisation hierarchy and ultimately consolidated to provide financial reports for the business as a whole. In such a role we can locate the dimensions of financial reporting which Johnson and Kaplan criticised in their book 'Relevance Lost: The Rise and Fall of Management Accounting' (1987).

Johnson and Kaplan argued that, at the time they were writing in the mid 1980s, most of the prevailing management accounting practices were over 60 years old. In other words, the techniques then in use had been developed by the early part of the twentieth century, and there had been no new techniques since then, despite major changes in both information and production technologies. Their basic argument was that management accounting was dominated by the concerns of financial reporting. Because companies are *required* to produce external financial reports they take precedence, and due to limitations in, and costs of, information processing it is difficult to maintain a separate management accounting system.

However, following a study of the relationship between external reporting and management decisions, which colleagues and I undertook for CIMA in the mid 1990s, we concluded that there are sufficient buffers placed between the financial reporting and the management accounting system such that management accounting meets the needs of managers, rather than the demands of external financial reporting (see Scapens *et al.*, 1996). This can be done principally because the advances in information technology (especially in database systems) have made it possible to separate the requirements of external reporting from the provision of management information and the design of the management accounting system. Thus, although management accounting may have been dominated by financial accounting, at the time Johnson and Kaplan were writing, circumstances had changed by the mid 1990s.

Johnson and Kaplan, and in particular Kaplan (1984 and 1986), called for case studies of the companies which are developing new management accounting systems and techniques. Since that time various new *advanced* management accounting techniques have emerged – probably the most significant is Activity-Based Costing (see Kaplan and Cooper, 1998) . But there have also been developments in the use of non-financial measures, with Kaplan and Norton's Balanced Score Card probably being the most well known system (1996). This has extended the range of performance measures used to manage a business, beyond the traditional profit concept. For example, companies now systematically measure such items as customer satisfaction, market share, the numbers of rejects, extent of innovation, and so on. There has also been the development of new techniques for 'strategic' management accounting (see Bromwich 1990). This approach supplements the traditional internal focus of management accounting on costs and performance within the business, with an outward looking perspective focusing on customers and markets; assessing the demands of customers, the costs competitors, and the benchmarking of business performance.

Although researchers have promoted these new techniques, they have been developed and refined largely in practice. Nevertheless, they are not all necessarily widely used (see later), but they are extensively discussed in the professional journals.

3 North American and European Research

As the previous section indicates, there have been changes since Johnson and Kaplan claimed that management accounting had lost its relevance. This section will contrast the research in North America, which followed Johnson and Kaplan's calls for studies of innovative management accounting practices, with the research undertaken in Europe. In North America, there has been much research in the area of cost management, particularly, on ABC, but also on strategic management accounting and performance measurement. Academics have contributed along with practitioners to the refinement of the techniques, but their papers have generally been restricted to journals such as Accounting Horizons and the Journal of Cost Management. The more mainstream research journals, such as The Accounting Review, have tended publish analytic and contingency studies, which seek to identify the specific factors which influence the implementation, success and applicability of these new techniques. Such research involves either economic modelling, or large-scale questionnaire studies and statistical analysis to locate the individual factors which explain a particular phenomenon – such as the use of ABC, or the circumstances in which there may be resistance to its implementation.

Underlying much of this North American research is the notion of decision-making and control by senior managers. As a result, management accounting is seen as the process of providing information for senior management to enable them to take decisions and to control their business – largely through a system of reporting on the financial performance of the various parts of the business; i.e., responsibility accounting. There continues to be an emphasis on information passed up the hierarchy, linked directly to a system of incentives, particularly in the analytical studies which use agency theory and transaction cost economics.

Recently, in a review of the contributions of North American researchers in the field of management accounting in the 1990s, Shields concluded that 'the most popular theories and research methods [...] are more suited to static, cross-sectional analysis' (1997, p. 22). He described the wide range of contingency studies used to identify the factors and combinations of factors which explain the impact of particular management accounting techniques. He also described various analytical studies, principally using agency theory, which seek to find equilibrium solutions to problems of information and incentives. The major problem with such contingency and equilibrium models is that they have difficulty in dealing with what are probably the most important elements of management accounting at the present time – change, organisational learning and strategic management (see Shields 1997).

In contrast, in Europe greater attention has been given to studies which seek to *understand* the organisational setting of management accounting, rather than simply seeing it as entailed in the economic relationship between individuals (principals and agents) who happen to be located in organisations[5]. The subject of management accounting is not taken for granted, rather the nature and organisational role of management accounting is open for debate. As a result we see studies of management accounting which try to understand the organisational settings in which management accounting is located. In addition, a recent book on European management accounting highlighted differences in the institutional contexts of management accounting in different European countries (see Bhimani, 1996). This book comprises chapters on 11 European countries, each written by local researchers. Although these chapters indicate that new techniques, such as ABC, are gaining acceptance across Europe, the institutional differences raise questions about the nature of management accounting.

In a number of European countries, the term 'management accounting' is not commonly used compared to Britain and North America. In Britain, there is a professional body for management accountants – the Chartered Institute of Management Accountants[6]. Similar bodies exist in some, but certainly not all, European countries. The individual chapters in Bhimani (1996) identify the institutional factors which give rise to different types of management accounting in these countries. But for this purpose, it is necessary to define management accounting very broadly. This is because, although the tasks which are traditionally included within the subject of management accounting are undertaken in all these countries, the job titles of the individuals undertaking these tasks may differ from country to country[7]. In some countries, such as Britain, there are individuals with the job title: 'management accountant' – or something equivalent. But in a number of other European countries, the tasks normally associated with management accountants in Britain are undertaken by other people – such as engineers, operations managers, business economists and various other people who would not regard themselves as accountants. Thus, whereas in North America there is a clear notion of what management accountants are, and what they do, this is not the situation across Europe.

To compare with Shields' review of North American management accounting research, I analysed all the papers published over the past 10 years in the research journal, *Management*

Accounting Research[8]. Although not an exclusively European journal, it does contain a large number of papers from European management accounting researchers (123, i.e., 69% of the total)[9], as well as papers from Australian and New Zealand researchers (10%), Asian researchers (7%) and some from North American researchers (14%). The particularly interesting aspect of the papers in *Management Accounting Research* is the use of case studies to explore the nature of management accounting within particular organisations, using a variety of theoretical perspectives – economic, organizational and social. Case studies were the research method used in 23% of the papers appearing in *Management Accounting Research*, and a further 12% used field studies, and 14% used surveys. These papers are now giving us a much clearer understanding of the nature of management accounting practices in contemporary organizations, especially in Europe. Two-thirds of these studies (case studies, field studies and surveys) were conducted in Europe and a further 15 % in Australia and New Zealand.

In contrast to the largely economic perspective adopted by the North American researchers[10], the European research does not have an exclusively economic orientation. Economics is important, but it is not the only approach which is used to understand the nature of management accounting. The use of these alternative theoretical perspectives makes it possible to question the nature of management accounting and to study such questions as what is management accounting, who does it, and where is it located in an organisation? Furthermore, the organisation and social perspectives, together with the use of case studies, make it possible to move away from the static, equilibrium-based approach of micro-economics, and to explore processes such as organisational learning and, in particular, to study processes of management accounting change. The next section will briefly outline some of the findings of my recent research into management accounting change.

4 The Changing Nature of Management Accounting

This research was based on case studies of 10 companies conducted over three years, 1995-98, together with a questionnaire survey undertaken in 1997 and a field survey in 1997-1998[11]. The companies studied were all located in Britain, but some are subsidiaries of North American multinationals. As two of the companies were part of an earlier project, the period over which they were studied extended beyond the three years of this project.

Table 1 lists the companies and the periods studied. For reasons of confidentiality, company names cannot be disclosed and they are identified by their industry. The research method used in the longitudinal studies comprised regular visits to discuss the progress of management accounting change programmes and other relevant events since the last visit, and when specific issues arose they were explored with the people most directly involved. The case studies conducted over shorter periods focused on specific changes which had already taken place, and those who had been involved were interviewed. Although the response rate for the questionnaire was disappointing (at only 10%), it provided an interesting insight into the extent of management accounting change in 91 British companies, and more importantly it provided access to a further twelve companies which were visited in the course of the field survey. Taken together, these case studies, and the questionnaire and field surveys provide a picture of management accounting change in Britain in the late 1990s. Although based on research in Britain, these studies raise issues which are likely to have much wider implications.

Table 1: The Case Studies

Name/Industry	*Period Studied*	*Details*
Chemicals	5 years	Small privately owned company
Insulation	5 years	European division of US multinational
Retail	3 years	Large British public quoted company
Electronics	3 years	US-based multinational company
Pharmaceuticals	3 years	British-based multinational company
Components	3 years	Small British company, recently sold to US company
Utilities	1 year	Group of recently privatised utility companies
Electric Motors	6 months	European multinational company

The research was motivated by concerns that despite the claims of Johnson and Kaplan and the subsequent development of such techniques as ABC, these new techniques are not being as widely used as might have been expected. This led to the research question: why have management accounting practices and systems been slow to change, despite rapid technological advances? However, as the project began it quickly became clear that change has taken place. But it is change in the way management accounting is used, rather than the use of new management accounting techniques.

It was very apparent that the case companies had experienced considerable change in the environment in which they are operating. There is much rhetoric about the global nature of competition, more volatile markets, faster reaction times, and so on. But behind this rhetoric, there have been significant changes in the economic climate, with more global competition, and businesses which are more market- and customer-focused[12]. Furthermore, there have undoubtedly been considerable technological advances, with major changes in both information and production technology. Enterprise resource planning systems (such as SAP and Baan), which integrate the various information systems used in a business, are becoming common, especially in large, multinational businesses, but also more recently in medium-sized business – see Scapens, *et al.* (1998b). Such technological changes have significant implications for the role of management accounting. There have also been various organisational changes, such as the de-layering of organisations, the empowerment of employees at all levels, outsourcing of non-core activities, and business process re-engineering. All these changes are creating a new environment in which management accounting is operating.

I will explore briefly three issues which are particularly important in this new environment. The first is information technology. It is unquestionable that computers now have a central role in management accounting. Most routine transaction processing is computerised; including the calculation of variances, the production of periodic performance reports, and other management information. Such information can be made easily available at all levels in the organisation. So managers with computers on their desks can see their variances and monitor their actual performance, possibly daily, or even in real time. Rather than having to wait until the end of the month for the management accountant to produce monthly figures, managers can see the information at their desk day-by-day. That is, if they choose to use it. They may not, but the technology is there to provide them with it.

This leads to the second issue, which is what we called in an earlier study, the decentring of accounting knowledge (Scapens *et al.*, 1996; see also Cooper, 1996). The understanding of accounting, and of the process of managing with financial numbers, has been pushed further down the organisation, with managers at all levels becoming more financially literate. This process has been facilitated by the availability of the information technology mentioned above, but it has been prompted largely by the problems which businesses have had to face over the past 10 to 15 years in coping with increasingly hostile economic conditions. Such conditions have made it essential for managers at all levels to be aware of the financial consequences of their actions.

The third issue is the increasing emphasis which is given to forecasting, compared to budgeting. Although companies continue to prepare annual budgets, usually divided into monthly periods, they are no longer *static* plans. They can be updated with rolling forecasts, possibly for 3-6 months ahead, or with forecasts to the year-end. Such forecasts have become very important in monitoring performance. The original budget may continue to be reported alongside monthly performance, but it is the comparison of actual and forecast, which is the crucial managerial tool. An interesting consequence arises from the fact that these forecasts are usually produced by the managers themselves – as only they have sufficient knowledge of what is happening in their part of the business. Consequently, as they are *their* forecasts, managers have a greater feeling of ownership of the information, as compared to the budgets which may have been compiled by (management) accountants and imposed by senior managers. This has contributed to a major shift which is taking place in the 'ownership' of accounting reports – from the accountants to the managers. Managers can now access management accounting information at their desk, they are more financially literate and they are responsible for their own financial forecasts.

This reflects a shift in the nature of, and the responsibility for, the monitoring of financial performance. But alongside the financial measures there has been growing interest in non-financial performance measures. As will be discussed in the next section, these non-financial measures are often driven by strategic concerns.

5 Strategy and Management Accounting

The increasing competition and hostile economic environment, mentioned earlier, has led to a more strategic or customer-oriented focus. That is, a focus on external market factors, rather than an exclusively internal focus on the control of costs. This is not to say that cost control is unimportant – it is very important. But costs have to be controlled with regard to the strategic directions of the business, so that customers' needs can be met cost effectively. This has led many businesses to identify their key performance indicators – i.e., measures of those aspects of the business which are crucial for its success. This is usually dictated by the business' strategy. Once a strategy has been agreed it is important to monitor whether or not the various dimensions of that strategy are being achieved. It is here that the use of non-financial performance measures becomes very important.

Our questionnaire survey indicated that non-financial performance measures are the most widely used of the 'new' management techniques. Of the questionnaire respondents, 60% reported using non-financial performance measures, compared to 31% using ABC and 27% using strategic management accounting. In view of this increasing importance attached to non-financial measures, we might question the role of the management accounts. In most companies, management accounts are produced periodically, usually monthly. Whether they are called the management accounts, the monthly business report, the financial package, or whatever, in most businesses monthly accounts are produced, both for local managers and for transmission up the organisational hierarchy, ultimately to the Board of Directors.

In one case company, a relatively small chemical processing company, the Managing Director described the reporting of the management accounts to the monthly Board meeting, as follows: 'The accountant presents the management accounts at the beginning of the Board meeting and it takes 20 minutes, including the jokes'. The point being made was that the management accounts set the scene for the subsequent discussion, but they should contain no new information. The Managing Director explained that he would be very worried if the management accounts contained any information which he did not already know. And he would be very concerned if there was any information in the management accounts which his managerial colleagues did not already know. The information should already have been available in the information system, and monitored continuously. It is too late to wait until the monthly accounts are produced. They are not a management tool *per se*, they simply aggregate the financial results for the month, so that the management team as a whole are aware of the general progress being made. They provide a guide to progress, but only in the context of the wider information which is available. As such the primary role of the management accountant, in relation to these monthly accounts, is to link them to broader information about the business, which is available to the management team. This will include both financial and non-financial information – and possibly long-term, as well as short-term performance measures.

This brings us to the role of the management accountant. We are now beginning to see a somewhat different role to the traditional controllership role described earlier. In that traditional role the management accountant was viewed as an independent and objective monitor of the financial performance of the various sections of the business, through the system of responsibility accounting, and someone primarily focused on cost control. But now the management accountant is more concerned with integrating different sources of information and explaining the interconnections between the non-financial performance measures and management accounting information. This integration is particularly important because it enables individual managers to see the linkages between their day-to-day operations, how these operations are presented in the monthly management accounts, and how they link to the broader strategic concerns of the business, as reflected in the non-financial measures. Integration can be seen as a key role of the management accountant.

This linking of day-to-day operations, management accounts and strategy emerged as important in all the companies we researched, in the case studies and in both the questionnaire and field surveys. In this connection, one interesting observation from our research was that in some instances the individuals occupying such integrating roles are changing their job titles. The word 'accountant' appears to have a negative connotation. This may have arisen in Britain due to recent financial initiatives in the public sector, which have largely been concerned with cost reduction. Such initiatives in hospitals, schools, universities and so on, have led to claims in the media that, for instance, 'hospitals are now run for accountants, not for patients'. These claims have reinforced a popular view that accountants are concerned primarily with cost reduction.

In the companies we studied, the individuals performing the integration role outlined above are more likely to be called business analysts, than management accountants – and certainly not business controllers. This change may be a reaction to the popular view of accountants, but it may also more accurately reflect the role which the management accountant is now taking in these organisations, and in particular, the move from the traditional view described earlier, to the broader view sketched out above. In the next section, I will outline some of the features of this new management accountant (or business analyst).

6 Features of the New Management Accountant

In a study of US organisations, Jablonsky *et al.* (1993) contrasted management accountants as 'corporate policemen' and 'business advocates'. The notion of the corporate policeman is similar to the idea of the financial controller as an independent and objective monitor of business performance, while the core elements of business advocacy are similar to the role of the business analyst described above.

These core elements could be listed as follows:
- member of the management team;
- possessing broad business knowledge;
- interpreting performance measures;
- using analytical capabilities, and;
- providing seamless systems and communications.

Being part of the management team, management accountants as business advocates (or business analysts) have moved out of their offices in the accounting function, to work alongside their business managers. We saw various illustrations in our case studies. In one case, a large pharmaceuticals company, the management accountants were spending much of their time working alongside and advising the business managers. This was despite a considerable reduction in the size of the finance function. It was emphasised that such accountants require a broad understanding of the business and an ability to interpret financial information in a strategic context. They were described by some people in the company as 'hybrid-accountants' – combining financial skills with business knowledge (see Burns and Baldvinsdottir, 1999). An interesting aspect of this case was that, although there had been significant changes in the role of management accountants, the accounting systems and techniques have remained largely unchanged and were described within the company as 'antiquated'.

Such change in the role of the management accountant requires a redesign of the accounting function. Rather than working in a separate specialist function with their accounting colleagues and only occasionally visiting their business managers, management accounting is now becoming increasingly decentralised, with management accountants working within the business areas and periodically meeting with their accounting colleagues who are working in other business areas (see Burns and Baldvinsdottir, 1999). The decentring of accounting knowledge mentioned earlier, and the increasing recognition of the financial consequences of management actions at all levels, has made such changes acceptable, and indeed desired by managers. The management accountants are able to help managers interpret the various financial and non-financial information with which they are now faced, and to assess both the operating and strategic consequences of alternative courses of action. A broad based knowledge of the business, reinforced through interactions with accounting colleagues in other parts of the business, puts the management accountant in a position to recognise the wider impacts of decisions taken in a particular area of the business. This role is important in integrating the various activities of the business, and is facilitated by seamless information and communication systems, such as ERP systems.

This role was illustrated in another case study – a utility company which provides both electricity and water services. This company has a specialist customer services function, which is responsible for responding to all customer enquiries, complaints, et cetera, and for processing invoices, customers' payments, and so on. The manager responsible for this function, although not a trained accountant, displayed a very high level of understanding of accounting systems and accounting information. But, nevertheless, she still professed to need her management accountant who, although notionally a member of the centralised accounting function, works most of his time in customer services. In response to a question regarding the role of this accountant, the manager explained that she regarded him as important, not because he could help her understand the customer services function (as she understood and managed that function very well), but because his links to the centralised accounting function and his knowledge of the wider corporate information systems mean that he has knowledge of the interactions with other parts of the business, and as a result, he is able to provide a much broader understanding of the business. Accordingly, he is able to advise on the impacts and implications which actions within the customer services function have on the other parts of the business – in particular, the wider financial consequences for the business of decisions taken within customer services. In other words, she saw her management accountant as someone who could look outwards from her area of activity, to the business more generally.

Thus, the 'new' management accountant works along side business managers (rather than within a separate accounting function) providing a broad view of the business and interpreting various sources of information (financial and non-financial – operating and strategic), and helping to integrate the various activities of the business.

7 From A Micro-Economic To Broad Business Perspective

Before drawing out some implications, this section will summarise the issues, and especially the differences, identified above. The paper began by outlining the traditional model of management accounting practice, with its emphasis on cost control, through systems of responsibility accounting, which divide the business into separate areas of responsibility for purposes of management control and accountability. Underlying such a model is the principle that there should be someone accountable for every part of business, whose performance can be measured so that incentives can be applied. These incentives are likely to be financial; but the essential feature is the linking of incentives to individual performance. This approach is grounded in an economic view of rationality and motivation. As such, I have characterised this traditional model as an economic perspective. In practice, its effects are largely individualising – the business is divided into areas of individual responsibility and incentives are used to motivate each individual to work for the interests of his/her part of the business. Competition between the areas of the business may then be promoted though comparisons of performance in the separate areas.

The new model, which I have tried to elaborate here, is concerned with integrating accounting and other aspects of management, with decision support and teamwork, with supporting the managers, and with interpreting the interconnections between operations, financial performance, and strategy. Furthermore, where there is a focus on business processes, the responsibilities for the performance of each process may cut across the traditional functional areas of, say, procurement, operations, sales, and the managers (and others) in those functional areas will be jointly responsible for the performance of the process as a whole. This approach may be linked to the idea of empowerment. As such it relies on notions of trust, team working and co-operation, rather than on dividing the business into separate areas of responsibility for monitoring and control. For effective empowerment, managers (and other employees) have to be given the information and other resources they need and 'trusted' to perform their tasks effectively.

However, this does not mean an absence of controls. Senior managers will still want to control the organisation. They cannot simply delegate everything to suitably empowered employees and expect the business to function efficiently. But the controls may be exercised at different, possibly higher levels[13]. For example, it may be groups and teams which are controlled, rather than individuals (see Scott and Tiessen, 1999). But this creates problems, particularly for traditional management accounting techniques and practices, which are based on assumptions of individual responsibility. Thus, we have to broaden our conception of management accounting to encompass team working, and to promote working together rather than working individually. This requires broad-based knowledge of the business and of how the various parts interact, and a need for integration, rather than individualisation.

I have characterised this broader view of the nature and role of management accounting as a broad business perspective. It requires an understanding of all aspects of the business, and of both its operations and strategy. The management accountant (or business analyst) has to bring together the various aspects and dimensions of the business, and to perform an integrating, rather than an individualising role.

8 Implications

This final section will explore the implications of the changing nature of management accounting for both professional management accountants and management accounting teachers. As my research has been partly funded by CIMA, I have been particularly interested in the implications for management accountants and their professional bodies. It is essential that they understand both the opportunities and threats.

It is widely recognised that a major element of the management accountant's traditional role has disappeared – the routine processing of transactions and the production of management reports. These activities are now computerised. But there is a further threat in the spread of ERP systems. If routine transaction processing and report generation are performed by an integrated computer system, they can be centralised. One of our case companies, the European division of a US multinational, with plants in various European countries, has used its ERP system to centralise all transaction processing in one location. All invoices, accounts and transactions are processed at that location. With such a centralised processing function it is only a small step to outsourcing. Thus, one threat facing management accountants is the outsourcing of much of their routine accounting activities.

However, it could be argued that such a threat is not too serious, as it will provide the space for management accountants to undertake other more important roles. Here we have the opportunity for the management accountant to perform the integration role described above. In this role the management accountant will become an integral member of the management team. This could be regarded as a decentralisation of management accounting. Rather than being members of a 'centralised' accounting (or finance) function, management accountants will be members of management teams. The centralisation (and potential outsourcing) of routine accounting activities, coupled with this decentralisation of management accountants to the management teams, has lead to claims that by the year 2010 'the finance department will no longer exist' – see KPMG (1998, p. 4).

Nevertheless, even if such predictions are valid, there will continue to be a role for management accountants within the management teams. Thus, despite predictions that management accountants risk being at a career dead-end (see Cooper, 1996), there will continue to be a role for the management accountant. But it will be a redefined role, and require a broadening of the education of management accountants. But in addition to broader knowledge of the business, management accountants will need other capabilities. In several of the case studies we were told of individuals who were excellent at handling the financial numbers, but could not relate them to the operations of the business. Such individuals were rapidly being moved out of these companies and replaced by others who are able to see *through* the numbers to the actual operations of the business. In addition, these management accountants need interpersonal skills to work closely with other members of the management team, as well as their skills with numbers and accounting systems. Thus, the professional bodies need to ensure, through the continuing education of existing members and the examination and training of new members, that management accountants have the knowledge, capabilities and interpersonal skills needed for this emerging role.

Teachers of management accounting in universities also have a role to play in this process. Unfortunately, as indicated earlier, management accounting textbooks continue to reflect a rather narrow economic decision making perspective. The essential contents of the textbooks has changed little over the years[14]. But there is now an urgent need for a change in management accounting education.

First, management accounting programmes need to provide broad-based knowledge of business, including such subjects as management, marketing, operations, and other business subjects. Then, within individual accounting courses, there needs to be an emphasis on the interpretation of financial numbers – not just focusing on the techniques, but how they impact on other dimensions of the business. Finally, in addition to accounting and business knowledge, accounting students need personal and interpersonal skills training; for example using teaching cases and interactive leaning techniques – where students role-play, take part in management games, et cetera. I am sure that many universities are already developing their accounting programmes in this way. I hope that the broadening of the scope of management accounting described in this paper will help to reinforce this trend.

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NOTES

1 Horngren used this definition in his early books and in the subsequent editions with his US co-authors.

2 CIMA define management accounting as 'the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources' (1996, p. 15).

3 Here we see a recognition of the importance of non-financial information (i.e., other types of information), as well as financial information.

4 I did use the term 'business administration' in the lecture on which this paper is based.

5 This interest in the organisational context of management accounting dates back to the early 1980s, particularly the contributions of Hopwood (see 1978, 1987; and also Burchell et al., 1980).

6 In the US there is the Institute of Management Accountants, previously known as the National Association of Accountants.

7 For an interesting comparison of British and German approaches to 'management accounting' see Ahrens (1997) and Ahrens and Chapman (1999).

8 A paper based on this analysis will be published in *Management Accounting Research* next year.

9 These comprise: 50% from UK and 19% from other European countries.

10 However, there are some North American researchers who adopt other perspectives. See Covaleski *et al.* (1996) for a review of such research.

11 This research was made possible through funding from the Chartered Institute of Management Accountants and the Economic and Social Research Council (award number: R000236095). Details of the research are contained in Scapens, *et al.*, (1998a) and summarised in Burns *et al.* (1999).

12 However, it is questionable whether such changes in the level of global competition affects all companies evenly within a particular country. Many companies may operate at a purely national level. However, most of the companies in our study had at least some international business and were affected to a greater or lesser extent by the increases in global competition.

13 It is interesting to note that there is evidence of movement in the opposite direction in Japan. Whereas there has been much discussion in recent years about team work in Japanese companies, Cooper has highlighted other trends, such as the introduction of micro-profit centres (1995 – see chp. 13 and 14). It may be interesting to speculate whether such trends are the result of increased economic pressures and of Japanese companies looking to the West for possible ways of dealing with them.

14 Despite changes in the 'packaging', and the inclusion of explicit learning objectives, et cetera, the material covered in management accounting textbooks has changed little since the 1960s – see also Scapens (1984 and 1991).